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INFO RUCNRAQ/IRAQ COLLECTIVE

C O N F I D E N T I A L BAGHDAD 003175

SIPDIS

E.O. 12958: DECL: 10/01/2018
TAGS: ECON EFIN PGOV IZ
SUBJECT: IRAQ READY TO PAY $300 MILLION TO SETTLE KUWAIT
AIRLINE CLAIM

REF: BAGHDAD 2944

Classified By: CETI Ambassador Marc Wall, reasons 1.4(b,d)

¶1. (C) Summary: On September 29, EMIN and Treasury Attache
met with Finance Minister Jabr to discuss Kuwait's efforts to
attach GOI assets, transfer of assets from the USG to the
GOI, and the 2009 budget. Jabr said the GOI was willing to
pay $300 million to settle claims by Kuwait Airways, not the
$500 million Kuwait had demanded. Jabr also said he wanted
asset transfers from the USG to proceed "as soon as
possible." Jabr reported that formulation of the 2009 budget
was "very hard." He is worried that debate over the
allocation to the Kurdish region would once again delay the
budget. End summary.

¶2. (C) EMIN told Jabr the USG was concerned about Iraq's
relationship with Kuwait following Kuwait's recent efforts to
put liens on aircraft and real estate in Canada owned by the
GOI. Jabr said the GOI's Council of Ministers (COM) had
discussed a proposal to pay $500 million to Kuwait's airline
to settle its claims against Iraqi Airways (reftel). But the
idea did not find much support. Instead, the COM decided to
instruct the GOI's lawyers in Canada to continue working on
the problem. Jabr said Kuwait's attempt to place liens on
the ambassador's residence and embassy in Canada was "a bad
sign" for relations between Kuwait and Iraq. "We need your
help," Jabr said, to find out why the Kuwaitis have chosen to
pressure Iraq in this way.

¶3. (C) In response to EMIN's question on what the USG could
do to help, Jabr said the USG could urge the Kuwaitis not to
expand the controversy by going after official government
assets. The Kuwaiti prime minister had said he would visit
Baghdad after Eid. Jabr said he hoped the prime minister
would come with a proposed solution. The GOI would not
accept Kuwait's demand for payment of $500 million within two
months. "This is not possible," Jabr said. But payment of
$300 million would be acceptable to the GOI.

¶4. (U) EMIN also told Jabr the Embassy was working on an
exchange of diplomatic notes to accomplish the transfer of
assets from USG control to the GOI. In reply Jabr said the
COM would review the issue. Jabr recommended that the
Embassy go directly to the prime minister on asset transfers
rather than to the deputy prime minister. This would make it
easier for the PM to give instructions to ministries. The
DPM could follow up if there were problems. Jabr said he was
eager to see all of the assets transferred to GOI control "as
soon as possible."

¶5. (C) In response to EMIN's question on the current state of
deliberations over the 2009 budget, Jabr said, "This budget
is very hard." He said the preliminary budget document was
now in its tenth draft. The next problem is the 17-percent
of expenditure demanded by the Kurds. Debate over this had
delayed the 2008 budget for four months -- "and for nothing,
just talk." (Comment: Members of the finance committee of
the Council of Representatives (COR) say one reason the 2008
budget was delayed is that the Finance Ministry refused to

answer questions the COR raised. End comment.) Jabr said he
had prepared the preliminary budget based on the established
17-percent rule. But there were many in the COR who wanted
to revisit the issue. The idea is to allocate funds to each
of the 18 provinces according to population, after funding
sovereign expenses. As before, the Kurds say any change in
the formula should come only after there has been a new
census. "We will wait for Talabani to return to discuss it
further," Jabr said. "Our coalition and the Arab Sunnis feel
that Kurdistan is taking from their revenues and get more
than their share." Under Saddam, Jabr said, the Kurds got 13
percent.
CROCKER